Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Conference on Accounting Issues	)	WC Docket No. 02-269
	)	

COMMENTS OF THE NORTH CAROLINA UTILITIES COMMISSION – PUBLIC STAFF

Pursuant to Sections 1.415, and 1.419 of the Federal Communications Commission's ("FCC" or "Commission") Rules of Practice and Procedures, 47 C.F.R. Section 1.415, and 1.419 (1998), the North Carolina Utilities Commission – Public Staff (NCUC - PUBLIC STAFF) respectfully submits these comments on the FCC's Public Notice of Federal-State Joint Conference on Accounting Issues ("Public Notice"), dated December 12, 2002.

I. INTEREST OF THE NCUC - PUBLIC STAFF

The NCUC - PUBLIC STAFF is an independent governmental agency charged with the duty and responsibility of representing the using and consuming public in proceedings before the North Carolina Utilities Commission. The North Carolina Utilities Commission (NCUC) is a state regulatory body that regulates the incumbent local exchange carriers (ILECs) within the State of North Carolina. The NCUC – PUBLIC STAFF provides advice and assistance to the NCUC in fulfilling its obligation to assure that telecommunications services and facilities required by the public convenience and necessity are established, and that services are furnished at rates that are just and reasonable. Because of the potential impact of the FCC Part 32 accounting rules and financial reporting requirements on the ability of the NCUC to effectively regulate the telecommunications companies under its jurisdiction, the NCUC-PUBLIC STAFF has an interest in this proceeding.

II. BACKGROUND

In this Public Notice, the Federal-State Joint Conference on Accounting Issues ("Joint Conference") continues its comprehensive review of accounting rules and related reporting requirements. The Joint Conference seeks specific comment on a number of specific issues that were addressed in the FCC Phase II Accounting Order and Phase III Further Notice. The Joint Conference also seeks comment on broader issues pertaining to the role, purpose and future direction of accounting and financial reporting requirements for ILECs.

III. DISCUSSION

The NCUC - PUBLIC STAFF appreciates the opportunity to offer comments on this Public Notice. In general, the NCUC - PUBLIC STAFF supports the efforts to simplify and streamline accounting and reporting requirements. However, the NCUC – PUBLIC STAFF strongly believes that the Uniform System of Accounts ("USOA") should continue to be maintained, as price caps are an alternative form of economic regulation, not deregulation. Although price cap regulation diminishes the need for some detailed accounting information, it does not eliminate the need for reliable pertinent financial information. In fact, certain financial information maintained on the Automated Reporting Management Information System (ARMIS) is relied upon heavily in performing price cap plan reviews. The USOA and the related reporting requirements should adapt to evolving needs for new types of financial information. It is from that perspective that the NCUC – PUBLIC STAFF offers the following comments on some of the issues delineated by the Joint Conference in the Public Notice.

<u>Specific Issue 6: Whether any accounts should be added to the USOA, including optical switching, switching software, loop and interoffice transport, interconnection revenues and expenses (with subaccounts for UNEs, Resale, Reciprocal Compensation, and Other Interconnection Arrangements), and universal service support revenues and expenses.</u>

The NCUC - PUBLIC STAFF believes that the FCC should revise the accounting system to incorporate significant changes in industry structure and regulation as they occur. Consistent with the ongoing implementation of local competition and changing ILEC business models, new accounts should be established to recognize revenues and costs for items such as unbundled network elements

(UNEs), collocated facilities, interconnection agreements, reciprocal compensation, and universal service fund transactions. Such information will enhance the ability of regulators to understand how these items affect the overall financial picture of ILECs.

Broader Issue 1: What are the respective roles of the state regulatory agencies and the FCC in maintaining the accuracy and reliability of regulatory accounts, and what is the FCC's role in establishing consistency in minimum regulatory accounting standards nationwide?

In most regulatory jurisdictions, the major ILECs are no longer subject to rate of return regulation. Instead, they are allowed to adjust their rates pursuant to forms of alternative regulation such as price cap regulation. As practiced by the North Carolina Utilities Commission, price cap regulation does not require the same types of detailed accounting and financial information that were needed under rate of return regulation. However, some accounting and financial information for ILECs remains necessary for regulators to properly perform their oversight responsibilities under price cap regulation. In fact, many Total Factor Productivity models used in price cap regulation rely heavily on historical accounting reports, such as ARMIS, to determine the productivity of telecommunications companies. Uniform national accounting rules that are applicable to all ILECs and ARMIS provide an effective means to conduct this regulatory oversight. The FCC, as the only regulatory body possessing jurisdiction over all of the major ILECs, is uniquely positioned to prescribe national uniform accounting rules that permit all regulators, including the FCC, to adequately perform their oversight responsibilities.

Broader Issue 3: What are the purposes of regulatory accounting, and how do they compare to the purposes of other types of accounting, including among others, taxation, public company financial disclosure, and corporate planning.

The purpose of regulatory accounting for ILECs that are not subject to rate of return regulation has clearly changed, but uniform national requirements are still desirable for these companies. Today, a major purpose of regulatory accounting is to provide regulators with insight into the financial aspects of jurisdictional business they regulate in order to evaluate the impact of past decisions and make informed decisions on new issues as they emerge. In North Carolina, many of the accounting and financial reporting requirements have been relaxed for the ILECs subject to price cap regulation. For example, financial reports are now provided on an annual basis as opposed to the monthly reports that were required under rate of return regulation. In addition, ILECs under price cap regulation have the authority to set their own depreciation rates. However, regulated/nonregulated cost apportionments and the jurisdictional separation of revenues, expenses, and investment continue to be necessary for understanding the financial impact of regulatory decisions on ILECs.

<u>Broader Issue 5: What is the role of regulatory accounting at the present stage in the movement from a regulated monopoly towards an increasingly competitive communications market</u>.

Regulatory accounting plays a less significant role today than it did when ILECs were regulated under rate of return regulation and revenue requirements were established on the basis of each individual ILEC's cost of service. Under alternative forms of regulation, such as price caps, the same direct link between an ILEC's costs and rates does not exist. However, the absence of that direct link between costs and rates does not mean that regulatory accounting and financial reporting requirements are no longer appropriate. On the contrary, accounting and financial information provides regulators with important data on how well alternative forms of regulation are functioning as the industry moves towards competition. Until competition replaces regulation in preventing monopoly profits, regulatory accounting and financial reporting requirements should be retained. Elimination of meaningful regulatory accounting and financial reporting requirements should follow the establishment of a fully competitive telecommunications market, not precede it.

Respectfully submitted .

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